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C O N F I D E N T I A L SECTION 01 OF 02 VIENTIANE 000567

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STATE FOR EAP/MLS
STATE FOR OES ANN COVINGTON
STATE FOR OES/ENV BRONSON GRISCOM
STATE FOR EEB/IFD/ODF JOHNATHAN WEYER
STATE PASS TO USED WORLD BANK
MANILA FOR USED ADB
BANGKOK FOR JIM WALLER
BANGKOK FOR USAID/ANE
BANGKOK FOR USAID/RDMA
TREASURY FOR DIRK JOLDERSMA
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SUBJECT: POWER COMPANY RESPONDS TO CRITICAL REPORT AT THE
NAM THEUN II STAKEHOLDER'S MEETING

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Classified By: Mary Grace McGeehan, Charge d'Affaires a.i. Reason: 1.4
b and d.

11. (C) SUMMARY: On June 27-28 the Government of Laos (GOL) and the Nam Theun Power Company (NTPC) held the second annual Nam Theun II (NT II) stakeholders' meeting in Thakek, Laos to discuss the situation at the World Bank funded project. The GOL and NTPC provided a large amount of information, much of it directed at refuting or replying to questions raised in a May 2007 report by the International Rivers Network (IRN). NTPC addressed worries over resettlement of villagers on the Nakai Plateau and stated the new villages would be completed by the 2008 wet season. The new Sop On village, while not completed, offered a better standard of living than many rural Lao villages. NTPC also discussed previous biomass clearance considerations, noting the design of the downstream channel included measures to oxygenate water prior to it flowing into the Xe Bang Fai river, and suggested the uncleared biomass could lead to a boom in the fish population after the reservoir is filled. Downstream livelihood retraining remains a concern--although NTPC was confident in the long-term success of the program, the quality of the water that will come out of the reservoir is unclear and might not be suitable for irrigation during the initial years. Overall, while the project is experiencing some slowdowns it continues to meet high standards, especially when viewed in the context of other projects undertaken in the Lao People's Democratic Republic. END SUMMARY.

12. (C) Econoff attended the NTPC and GOL-sponsored Nam Theun II Stakeholder's meeting June 27-28 in Thakek Laos. Attendees, who included inter alia GOL Minister of Energy and Mines Dr. Bosaikham Vongdara, Embassy representatives, NGOs, employees of international financial institutions, business people, and journalists, who listened to a lengthy update on various aspects of NT II on the first day. Of note were the responses obviously keyed to the May 2007 report by Shannon Lawrence of the International Rivers Network, which criticized the NTPC, GOL, World Bank, and Asian Development Bank for not living up to the NT II concession agreement. IRN's Bangkok-based representative Carl Middleton did a

credible job in trying to make IRN's points while portraying IRN as an organization interested in constructive criticism, not criticism for its own sake.

13. (C) One of the more contentious issues raised by IRN's report was the status of temporary and permanent housing for villagers being resettled from the Nakai Plateau. The NTPC resettlement manager acknowledged that some villagers would have to spend a second rainy season in temporary housing, noted that three of the resettlement villages will be finished by the middle of this wet season, and stated that all temporary houses were inspected prior to the 2007 wet season and found to be acceptable and, in his words, better than the occupants' previous homes. Econoff never saw the original villages; however the temporary dwellings appeared similar to other homes in rural Laos--not designed to western standards, but not unusual for Laos. The new permanent homes in contrast are well designed, sturdily built traditional raised wooden Lao homes. NTPC personnel stated one of the delays in finishing the houses was a lack of hardwood; this was blamed on a misunderstanding with the government, since corrected, which had resulted in delivery of an incorrect lumber variety.

14. (C) NTPC also addressed the IRN's contention that it was not adequately addressing biomass clearance and came out strongly against the accusation that this had not been previously studied. NTPC pointed out there had been numerous studies which had led NTPC to make design changes to improve downstream water quality--such as a weir to oxygenate the water in the channel to the Xe Bang Fai river. NTPC also prepared the downstream livelihood plan based on a worst case 85% fish mortality rate due to unclean water from the reservoir. NTPC claimed that 1/3 of the biomass is above ground and thus reachable if necessary. Econoff spoke with a number of delegates on the issue. An ADB water engineer was the most straightforward*he told Econoff that the first two

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years are uncertain and that it is anyone's guess as to initial water quality. NTPC argued that other similar tropical reservoirs have seen a boom in the fish population due to nutrients in the degrading biomass, although no specific examples were offered. The company also stated a study on the effect of additional above-ground biomass clearance on downstream water quality is currently in process. An interesting aspect of the NT II reservoir is that it is expected to shrink by about 80% every year from its peak water level during the wet season. If it becomes clearly necessary, it will be possible to remove additional above-ground biomass in later years.

15. (C) On the meetings' second day delegates travelled around the project area, viewing the power station, downstream channel, and other areas of the dam. Included was a stop at one of the new villages, Sop On. Although not yet completed, the village appeared to offer a clear improvement in living standards. The housing looked excellent; there was plenty of potable water; electricity will be provided; and each home had a cement outhouse. Econoff spoke with a number of people who had been resettled. They were uniformly positive about the change*nicer houses, better road access, and overall a better lifestyle. One gentleman who was being interviewed by the press offered a somewhat contrary opinion, stating there was less food in the new village than the old, but that he was still happier with his partially constructed new house. Judging his overall credibility was difficult, as he appeared intoxicated at 2:00 pm, an unusual situation if he was truly going hungry. (Comment: Expectation management is key to seeing the resettlement villages in the Lao context. If visitors look and think "It does not look like Fairfax", as one visitor reportedly told a senior World Bank official, then they will likely leave disappointed in the project's resettlement benefits. No, the village does not look like the United States, but it does look like a nice rural Lao village. End Comment)

¶6. (C) Comment: The overall impression--taking into account that this was a company-sponsored event--was of a project that is proceeding well, with some hiccups on the social/relocation side, but with at least one serious question that needs to be addressed and monitored over the long term--what happens to the affected downstream communities? Continued international, financial institution, and NGO monitoring should ensure that the downstream affected people receive the help to which they are entitled under the NT II concession agreement. Downstream communities are beginning to receive new livelihood training now, and the downstream water quality is likely to improve fairly quickly after the first few years, which should help mitigate the need for new livelihoods. However, this issue appears to be the most serious challenge facing NTPC and the GOL.

¶7. (C) IRN's May 2007 report criticizing NTPC, the World Bank, the Asian Development Bank, and the GOL clearly hit a nerve. Many delegates representing parties to the project spoke in unflattering terms about IRN and its propensity to exaggerate and misstate information, unlike other NGOs whose comments are aimed at truly helping NT II succeed. Based on these comments, IRN might receive a cool welcome the next time it returns to Vientiane to discuss NT II. This is unlikely to alter the actual monitoring of the project, which reportedly averages about two monitoring missions a month.
End Comment
MCGEEHAN